



State of North Carolina

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North Carolina Senate President Pro Tempore Marc Basnight
North Carolina House of Representatives Speaker Joe Hackney
Co-Chairs, Joint Legislative Commission on Governmental Operations

Senator John Snow
Senator Eleanor Kinnarid
Representative Alice Bordsen
Representative Jimmy Love
Co-Chairs, Appropriations Subcommittees on Justice and Public Safety

North Carolina General Assembly
Raleigh, North Carolina 27601-1096

RE: G.S. §114-2.5; Report on Settlement Agreement for Purdue Frederick and
Purdue Pharma

Dear Members:

G.S. §114-2.5 requires the Attorney General to report to the Joint Legislative Commission on Governmental Operations and the Chairs of the Appropriations Subcommittees on Justice and Public Safety regarding all settlements and court orders which result in more than \$75,000.00 being paid to the State. Pursuant to that statute, I am writing regarding the settlement of claims for Medicaid reimbursement to the State and Federal governments in the above-referenced matter. Pursuant to federal law (42 CRS 433.320) recoveries in these cases are shared on a pro-rata basis by the State and Federal governments.

The Purdue Frederick Company, Inc., a New York corporation, and Purdue Pharma, L.P., a Delaware limited partnership (collectively "Purdue"), are businesses engaged nationally in the manufacture, marketing, and distribution of pharmaceutical products including OxyContin, an extended-release form of oxycodone. On May 10, 2007 Purdue Frederick and two current and one former Purdue executives plead guilty in the United States District Court for the Western District of Virginia to misdemeanor charges of misbranding OxyContin as being less addictive, less subject to abuse and diversion and less likely to cause tolerance and withdrawal problems than other pain medications. Purdue also entered into a civil agreement with the federal

government in which Purdue agreed to a \$634.5 million settlement out of which it would pay \$160 million to compensate Medicaid and other federally funded payors for damages caused by the misbranding.

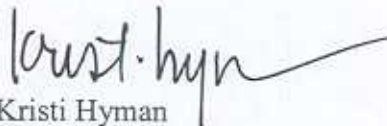
On August 30, 2007 a Settlement Agreement was executed between Purdue and the North Carolina Department of Justice. The settlement covers the time period from 1995 to 2005. The state alleged that Purdue marketed OxyContin as less subject to abuse, illicit use and diversion and as less addictive and less likely to cause tolerance and withdrawal than other pain medications and that Purdue knew that these marketing claims were false and misleading, causing damage to the North Carolina's Medicaid Program.

Pursuant to the Settlement Agreement, the United States and North Carolina received \$6,427,214.00 for alleged injury to the North Carolina Medicaid Program. Of this amount, North Carolina received restitution, penalties, and interest in the total amount of \$2,593,380.83. Of this amount, the North Carolina Medicaid Program received \$1,315,463.30 for the state share of monies recovered. A portion of the state share will be returned to the affected counties based upon their financial participation in the Medicaid Program. In addition, pursuant to Article IX, Section 7 of the North Carolina Constitution and G.S. §115C-457.1, the penalty portion of the settlement in the amount of \$1,252,870.35 will be paid to the Civil Penalty Forfeiture Fund for the support of the public schools. Pursuant to G.S. §115C-457.2, the North Carolina Department of Justice will receive \$25,047.18 for costs of collection.

The settlement further required Purdue to enter into a Corporate Integrity Agreement with the Office of the Inspector General of the U.S. Department of Health and Human Services in order to monitor the company's operations and ensure compliance with the law in the future.

We will be happy to respond to any questions you may have regarding this report.

Very truly yours,

A handwritten signature in black ink, appearing to read "Kristi Hyman", with a long, sweeping horizontal line extending to the right.

Kristi Hyman
Chief of Staff

KH:kds

cc: Jean Sandaire, NCGA Fiscal Research Division
Greg McLeod, NCDOJ, Legislative Counsel
Nels Roseland, NCDOJ, Deputy Chief of Staff